

WHITE PINE LIBRARY COOPERATIVE
SAGINAW, MICHIGAN

FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Michigan Department of Treasury
496 (2-04)

Auditing Procedures Report

JAN 12 2006

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name White Pine Library Cooperative		County Alcona
Audit Date 9/30/05	Opinion Date 11/1/05	Date Accountant Report Submitted to State: 1/10/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|---|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Weinlander Fitzhugh			
Street Address 1600 Center Avenue PO Box 775		City Bay City	State MI
Accountant Signature <i>Weinlander Fitzhugh</i>		ZIP 48707-0775	
		Date 1/10/05	

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WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

Independent Auditors' Report

November 1, 2005

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Board of Directors
White Pine Library Cooperative
Saginaw, Michigan

We have audited the accompanying financial statements of the governmental activities and its major fund of White Pine Library Cooperative (Cooperative) as of and for the year ended September 30, 2005, which collectively comprise the Cooperative's basic financial statements as listed in the index. These financial statements are the responsibility of White Pine Library Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and its major fund of White Pine Library Cooperative as of September 30, 2005 and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2005, on our consideration of the Cooperative's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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WEINLANDER FITZHUGH

Board of Education
White Pine Library Cooperative
November 1, 2005
Page 2

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information as identified in the index are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise White Pine Library Cooperative's basic financial statements. The fund financial statements presented in the index are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Weinlander Fitzhugh

WHITE PINE LIBRARY COOPERATIVE
Management's Discussion & Analysis
For the Year Ended September 30, 2005

Our discussion and analysis of the White Pine Library Cooperatives' financial performance provides an overview of the Cooperative's financial activities for the fiscal year ended September 30, 2005.

Financial Highlights

The Cooperative's net assets decreased by \$24,642 or 9.1%. Program revenues were \$262,892 or 52.8% of total revenues, and general revenues were \$234,944 or 47.2%.

The General Fund reported a positive fund balance of \$222,129.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand White Pine Library Cooperative financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the Cooperative, presenting both an aggregate view of the Cooperative's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Cooperative's operations in more detail than the government-wide financial statements by providing information about the Cooperative's most significant and only fund – the General Fund. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Other Supplemental Information

WHITE PINE LIBRARY COOPERATIVE

Management's Discussion & Analysis

For the Year Ended September 30, 2005

Reporting the Cooperative as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Cooperative's finances is, "Is the Cooperative better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Cooperative as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Cooperative's net assets as a way to measure the Cooperative's financial position. The change in net assets provides the reader a tool to assist in determining whether the Cooperative's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, and facility conditions in arriving at their conclusion regarding the overall health of the Cooperative.

Reporting the Cooperative's Most Significant Funds

Fund Financial Statements

The Cooperative's fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The Cooperative's one type of fund, governmental, is further described in the notes to the financial statements.

Governmental Funds

Most of the Cooperative's activities are reported in governmental funds, which focus on how money flows into and out of the fund and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Cooperative's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Cooperative's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

WHITE PINE LIBRARY COOPERATIVE
Management's Discussion & Analysis
For the Year Ended September 30, 2005

Summary of Net Assets

The statement of net assets provides the perspective of the Cooperative as a whole. Exhibit A provides a summary of the Cooperative's net assets as of September 30, 2005 and 2004:

Exhibit A	Governmental Activities	
	2005	2004
Assets		
Current and other assets	\$ 236,624	\$ 246,969
Capital assets - net of accumulated depreciation	37,558	54,745
Total assets	274,182	301,714
Liabilities		
Current liabilities	14,495	14,982
Long-term liabilities	12,876	15,279
Total liabilities	27,371	30,261
Net Assets		
Invested in property and equipment - net of related debt	32,372	54,745
Unrestricted	214,439	216,708
Total net assets	\$ 246,811	\$ 271,453

The Cooperative's net assets were \$246,811 at September 30, 2005. Investment in property and equipment, net of related debt totaling \$32,372, compares the original costs less depreciation of the Cooperative's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from local membership fees and state grants as the debt service comes due.

The \$214,439 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

WHITE PINE LIBRARY COOPERATIVE

Management's Discussion & Analysis For the Year Ended September 30, 2005

The results of this year's operations for the Cooperative as a whole are reported in the statement of activities, as summarized in Exhibit B below, which shows the changes in net assets for the year ended September 30, 2005.

Exhibit B	Governmental Activities	
	2005	2004
Revenues		
Program revenue:		
Charges for services	\$ 187,995	\$ 230,082
Operating grants	74,897	26,666
General revenue:		
State aid, unrestricted	224,903	226,160
Interest and investment earnings	6,295	1,634
Other	3,746	2,793
Total revenues	497,836	487,335
Function/Program Expenses		
Continuing Education	7,750	11,606
Delivery Services	57,141	79,882
Membership Support	457,587	417,839
Total expenses	522,478	509,327
(Decrease) in Net Assets	\$ (24,642)	\$ (21,992)

Approximately 87.6% of the expenses are related to supporting services to member libraries. This includes expenses such as salaries, benefits and supplies related to administration and other supporting services. This does not include any capital outlay expenses such as computers as these transactions are recorded in the Statement of Net Assets as capital assets.

Approximately 10.9% of the expenses are related to delivery services. This includes transportation, salaries, benefits, and other services related to the movement of books and other items to various libraries.

The remaining 1.5% of expense relates to continuing education expenses. These expenses relate to salaries, benefits, supplies, and other continuing education expenses related to work shops conducted by the Cooperative.

WHITE PINE LIBRARY COOPERATIVE

Management's Discussion & Analysis For the Year Ended September 30, 2005

As reported in the Statement of Activities, the cost of our governmental activities this year was \$522,478. Certain activities were partially funded from those who benefited from the programs through charges for services. This amounted to \$187,995 and consisted predominately of library membership fees. Other activities were partially funded with grant funds. This amounted to \$74,897 and consisted of federal funds used for a specific function. The remaining expenses of \$259,586 were funded by unrestricted state aid, interest income, other revenues, and prior year unrestricted funds.

The Cooperative experienced a \$24,642 decrease in net assets as a whole. The decrease in net assets differs from the change in fund balance. A reconciliation between the Statement of Activities and the Statement of Revenues, Expenditures and Changes in Fund Balance is included in the financial statements.

The Cooperative's Governmental Fund Statements

The Cooperative uses funds to help it control and manage money for particular purposes, using the General Fund, which is the only fund used by the Cooperative. The operations of this fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures on the modified accrual basis of accounting. Government resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent.

In the General Fund, the Cooperative experienced a \$9,858 decrease in fund balance. This is due largely to a decrease in library membership during the year. Overall, total expenditures were within 0.9% of budgeted amounts. Total revenues were 2.8% lower than anticipated.

General Fund Budgetary Highlights

Over the course of the year, the Cooperative revises its budget to reflect changes in revenues and expenditures. Public Act 621 of 1978, Section 18(1) requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing that Cooperative's original and final budget amounts compared with amounts actually paid and received is provided as required supplemental information in these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were decreased by \$16,971. The significant change in revenues was no Merit Connection for 2005
- Budgeted expenditures were decreased by \$16,971. Professional services increased, Merit and equipment decreased.

WHITE PINE LIBRARY COOPERTIVE

Management's Discussion & Analysis For the Year Ended September 30, 2005

- Actual revenues were 2.8% lower than budgeted under the final budget. This lower than the budgeted amount was a result of no Reserve Fund and lower than expected miscellaneous income.
- Actual expenditures were 0.9% lower than the final budget.

Capital Assets

Asset purchases in excess of \$5,000 are recorded as capital assets and depreciated over its estimated useful life. At September 30, 2005, the Cooperative had \$37,558 invested in capital assets. The amount represents a net decrease of approximately \$17,187 from last year.

	2005	2004
Equipment	\$ 80,350	\$ 80,350
Furniture and fixtures	1,535	1,535
Total capital assets	81,885	81,885
Less accumulated depreciation	44,327	27,140
Net capital assets	<u>\$ 37,558</u>	<u>\$ 54,745</u>

The Cooperative had no capital asset additions for year ended September 30, 2005.

We present more detailed information about our capital assets in the notes to the financial statements. We anticipate no significant capital additions next year.

Debt

At the end of this year, the Cooperative had \$5,186 in capital lease obligations outstanding.

Factors Expected to have an Effect on Future Operations

Our appointed officials and administration consider many factors when determining the Cooperative's fiscal year budget. Two of the most significant factors affecting our budget are library membership fees and state revenue. State aid accounts for approximately 45.2% of our total general fund revenue, while membership fees account for approximately 34.7% of our general fund revenue. Membership fees increased by approximately 1% from the year ended September 30, 2004 to year ended September 30, 2005. Preliminary analysis indicates

WHITE PINE LIBRARY COOPERTIVE
Management's Discussion & Analysis
For the Year Ended September 30, 2005

membership levels in 2006 similar to membership levels for the year ended September 30, 2005. State Aid is calculated based on state per capita rate that is applied to the membership population in the areas served by the Cooperative. In addition, an additional portion of state aid is based on density population. A state approved amount is allocated to the Cooperative based on the square mileage of the area that the Cooperative serves. State Aid for 2006 is projected to be comparable to year ended September 30, 2005 levels. The Cooperative also considers federal grants, which consisted of approximately 15.0% of revenue, in determining its budget as available.

Other factors, such as an increase in benefits are causing major constraints on our spending power. Health insurance premiums alone have increased significantly for the fiscal year ending 2006. The Cooperative will continue to determine strategies that would help minimize expenditures.

The Cooperative's 2005 budget indicates that fund equity will be used during the 2006 fiscal year to maintain current operations.

WHITE PINE LIBRARY COOPERATIVE

Statement of Net Assets

September 30, 2005

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 225,961
Due from other governmental units	10,663
Capital assets net of accumulated depreciation of \$44,327	<u>37,558</u>
Total assets	<u>274,182</u>
<u>Liabilities</u>	
Accounts payable	5,701
Lease payable, current portion	2,298
Accrued salaries and benefits	3,394
Deferred revenue	3,102
Long-term liabilities:	
Lease payable, non-current portion	2,888
Accrued vacation	<u>9,988</u>
Total liabilities	<u>27,371</u>
<u>Net Assets</u>	
Investment in capital assets - net of related debt	32,372
Unrestricted	<u>214,439</u>
Total net assets	<u><u>\$ 246,811</u></u>

See accompanying notes to financial statements.

WHITE PINE LIBRARY COOPERATIVE
Statement of Activities
For the Year Ended September 30, 2005

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating Grants/</u>	<u>Activities</u>
		<u>Services</u>	<u>Contributions</u>	<u>Net (Expense)</u>
				<u>Revenue and</u>
				<u>Changes in Net</u>
				<u>Assets</u>
Governmental activities:				
Continuing education	\$ 7,750	\$ 344	\$ 0	\$ (7,406)
Delivery services	57,141	2,250	0	(54,891)
Membership support	457,587	185,401	74,897	(197,289)
Total government activities	<u>\$ 522,478</u>	<u>\$ 187,995</u>	<u>\$ 74,897</u>	<u>(259,586)</u>
General revenues:				
State aid not restricted to specific purposes				224,903
Interest and investment earnings				6,295
Other				<u>3,746</u>
Total general revenues				<u>234,944</u>
Change in net assets				(24,642)
Net assets - beginning of year				<u>271,453</u>
Net assets - end of year				<u>\$ 246,811</u>

See accompanying notes to financial statements.

WHITE PINE LIBRARY COOPERATIVE
Governmental Fund
Balance Sheet
September 30, 2005

	<u>Total Governmental Funds</u>
<u>Assets</u>	
Cash and investments	\$ 225,961
Due from other governmental units	<u>10,663</u>
Total Assets	<u><u>236,624</u></u>
<u>Liabilities and Fund Balance</u>	
<u>Liabilities</u>	
Accounts payable	5,701
Lease payable	2,298
Accrued payroll	3,394
Deferred revenue	<u>3,102</u>
Total liabilities	14,495
<u>Fund Balance</u>	
Unreserved	<u>222,129</u>
Total Liabilities and Fund Balance	<u><u>\$ 236,624</u></u>

See accompanying notes to financial statements.

WHITE PINE LIBRARY COOPERATIVE
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
September 30, 2005

Total fund balance - governmental funds		\$	222,129
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			
Cost of the capital assets	\$	81,885	
Accumulated depreciation		<u>(44,327)</u>	
			37,558
Long-term liabilities are not due and payable in the current period and are not reported in the funds:			
Accrued vacation			(9,988)
Capital lease			<u>(2,888)</u>
Total net assets - governmental activities		\$	<u>246,811</u>

See accompanying notes to financial statements.

WHITE PINE LIBRARY COOPERATIVE
Governmental Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended September 30, 2005

	General/ Total Governmental Fund
<u>Revenues</u>	
Charges for services	\$ 187,995
State sources	224,903
Federal sources	74,897
Interest and other sources	<u>10,041</u>
Total revenues	<u>497,836</u>
<u>Expenditures</u>	
Recreation and culture	<u>507,694</u>
Net change in fund balance	(9,858)
Fund balance - beginning of year	<u>231,987</u>
Fund balance - end of year	<u><u>\$ 222,129</u></u>

See accompanying notes to financial statements.

WHITE PINE LIBRARY COOPERATIVE
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2005

Net change in fund balance - total governmental funds	\$ (9,858)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(17,187)
Decrease in accrued vacation absences is reported as a reduction in expense in the statement of activities.	105
Decrease in long-term lease obligations is reported as a reduction in expense in the statement of activities	<u>2,298</u>
Change in net assets of governmental activities	<u><u>\$ (24,642)</u></u>

See accompanying notes to financial statements.

WHITE PINE LIBRARY COOPERATIVE
Notes to Financial Statements
For the Year Ended September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The White Pine Library Cooperative (Cooperative) was formed under Public Act 89 of 1977, and is considered a local governmental unit. The Cooperative provides various services to member libraries in Arenac, Bay, Clare, Gladwin, Huron, Iosco, Isabella, Midland, Ogemaw, Saginaw, Tuscola and contiguous counties.

The financial statements of the Cooperative have been prepared in conformity with U.S. generally accepted accounting principles, as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Cooperative's accounting policies are described below.

Reporting Entity

In evaluating how to define the Cooperative, for financial reporting purposes, management has considered all potential component units. Based upon the application of certain criteria, the financial statements of the Cooperative contain all the funds and account groups controlled by the Cooperative's Board of Directors as no other entity meets the criteria of the Cooperative nor is the Cooperative a component unit of another entity.

Basic Financial Statements – Government-Wide Statements

The Cooperative's basic financial statements include both government-wide (reporting the Cooperative as a whole) and fund financial statements (reporting the Cooperative's major fund). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. All of the Cooperative's activities are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental column is presented on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Cooperative's net assets are reported in two parts: invested in capital assets, net of related debt and unrestricted net assets. The Cooperative first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Cooperative's functions. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating grants and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants

WHITE PINE LIBRARY COOPERATIVE
Notes to Financial Statements
For the Year Ended September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This government-wide focus is more on the sustainability of the Cooperative as an entity and the change in the Cooperative's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statement

The financial transactions of the Cooperative are reported in individual funds in the fund financial statements. The Cooperative only has one fund, the general fund. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures. It is used to account for all financial resources.

Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It related to the timing of the measurements made regardless of the measurement focus applied.

Accrual – The governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual – The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e. both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Assets, Liabilities and Equity

Deposits and Investments – The Cooperative's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from date of acquisition.

WHITE PINE LIBRARY COOPERATIVE
Notes to Financial Statements
For the Year Ended September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (continued)

rate of return is fixed, and the Cooperative intends to hold the investment until maturity. The Cooperative had no investments at September 30, 2005.

State statutes authorize the Cooperative to deposit and invest in the accounts of federally insured banks, insured credit unions, and savings and loan associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government of federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security in the form of collateral, surety bond, or other forms for the deposit of public money. An Attorney General's opinion states that public funds may not be deposited in financial institutions located in states other than Michigan. The Cooperative's deposits are in accordance with statutory authority.

Accounts Receivable – Management of the Cooperative considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations in the period of uncollectibility. The application of this method is not deemed materially different than the allowance method which is prescribed for purposes of U.S. generally accepted accounting principles.

Capital Assets – Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Equipment	5-20 years
Furniture and Fixtures	5-20 years

Compensated Absences – Accumulated vacation and sick pay amounts and associated employee-related costs are accrued when earned. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

WHITE PINE LIBRARY COOPERATIVE
Notes to Financial Statements
For the Year Ended September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates – The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Budgets - Comparisons to budget are presented for the General Fund as required by U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Cooperative. Individual amendments were not material in relation to the original appropriations that were amended. Adoption and amendments of budgets used by the Cooperative are governed by Public Act 621, which was complied with during the year ended September 30, 2005. Any amendment of the original budget must meet the requirements of Public Act 621. Budgets are adopted in total for the general fund.

NOTE 2 – CASH AND INVESTMENTS

The breakdown between deposits and investments for the Cooperative is as follows:

Deposits (checking and sweep)	\$ 225,934
Petty cash and cash on hand	<u>27</u>
Total	<u><u>\$ 225,961</u></u>

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. As of June 30, 2005, \$152,594 of the Cooperative's bank balance of \$252,594 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Cooperative's name.

Interest Rate Risk

In accordance with its investment policy, the Cooperative will minimize interest rate risk, which is the risk that the market value of securities will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

WHITE PINE LIBRARY COOPERATIVE
Notes to Financial Statements
For the Year Ended September 30, 2005

NOTE 3 – PENSION PLAN

The Cooperative provides pension benefits for all of its full-time employees through a Simplified Employee Pension Plan. The Cooperative's contributions are calculated based on the lesser of \$30,000 or 15% of compensation. Total contributions for the year ended September 30, 2005 were \$23,858, which is 15% of covered payroll for the year then ended. Employees are eligible to participate after six months of service. The Cooperative's total payroll for the year ended September 30, 2005 was \$159,296, and the Cooperative's contributions to the plan for the year were based on eligible wages of \$159,221.

NOTE 4 – RENTAL AGREEMENT

During the year ending September 30, 2005, the Cooperative leased 3,100 square feet of office space located at 3210 Davenport, Saginaw, Michigan. Monthly rental payments were \$1,363 for October 1, 2004 through September 30, 2005. The Cooperative incurred total rental expenditures of \$16,356 during the year. The future minimum lease payments are \$16,800 for 2006, 2007, and 2008.

NOTE 5 – CAPITAL ASSETS

Government capital asset activity for the year ended September 30, 2005 was as follows:

	Balance October 1, 2004	Additions	Disposals and Adjustments	Balance September 30, 2005
<u>Capital assets being depreciated</u>				
Equipment	80,350	0	0	80,350
Furniture and fixtures	1,535	0	0	1,535
Subtotal	81,885	0	0	81,885
<u>Accumulated depreciation</u>				
Equipment	27,121	16,880	0	44,001
Furniture and fixtures	19	307	0	326
Subtotal	27,140	17,187	0	44,327
Net capital assets being depreciated	<u>\$ 54,745</u>	<u>\$ (17,187)</u>	<u>\$ 0</u>	<u>\$ 37,558</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Membership support	<u>\$ 17,187</u>

WHITE PINE LIBRARY COOPERATIVE
Notes to Financial Statements
For the Year Ended September 30, 2005

NOTE 6 – LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Cooperative for the year ended September 30, 2005:

	Balance October 1, 2004	Additions	Retirements and Payments	Balance September 30, 2005	Amount Due Within One Year
Capital leases (Note 7)	\$ 7,059	\$ 0	\$ (1,873)	\$ 5,186	\$ 2,298
Compensated absences	10,093	0	(105)	9,988	0
Total capital leases	<u>\$ 17,152</u>	<u>\$ 0</u>	<u>\$ (1,978)</u>	<u>\$ 15,174</u>	<u>\$ 2,298</u>

The annual requirements to amortize all capital leases outstanding (principal and interest) as of September 30, 2005 are:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,298	\$ 762	\$ 3,060
2007	2,179	221	2,400
2008	709	19	728
	<u>\$ 5,186</u>	<u>\$ 1,002</u>	<u>\$ 6,188</u>

Compensated absences include unused vacation pay. At September 30, 2005, the amount of \$9,988 has been recorded in the government-wide financial statements.

WHITE PINE LIBRARY COOPERATIVE
Notes to Financial Statements
For the Year Ended September 30, 2005

NOTE 7 – OBLIGATIONS UNDER CAPITAL LEASES

The Cooperative has entered into various long-term lease arrangements for equipment, which have been classified as capital leases. Depreciation of this equipment is included in depreciation expense. The following is a schedule by years of future minimum lease payments under capital leases as of September 30, 2005:

2006	\$ 3,060
2007	2,400
2008	<u>728</u>
Total minimum lease payments	6,188
Amount representing interest	<u>(1,002)</u>
	<u><u>\$ 5,186</u></u>

NOTE 8 – UNEMPLOYMENT COMPENSATION

The Cooperative is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Cooperative must reimburse the Employment Commission for all benefits charged against the Cooperative for the year.

NOTE 9 – CONTINGENCIES

The Cooperative has received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditures disallowed under terms of the grants, management believes that any required reimbursement would not be material.

NOTE 10 – RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters.

The Cooperative carries commercial insurance for risks to cover these losses. The Cooperative also continues to carry commercial insurance for other risks of loss, including employee health, employee dental, life insurance and accident insurance.

WHITE PINE LIBRARY COOPERATIVE
Notes to Financial Statements
For the Year Ended September 30, 2005

NOTE 11 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. GASB Statement No. 34 requires disclosure of any excess of expenditures over appropriations for the individual funds presented in the Budgetary Comparison Schedule.

In the following instances, the Cooperative expended funds in excess of the amounts appropriated:

<u>General Fund</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
Continuing Education \$	5,450	\$ 7,750	\$ 2,300
Equipment lease	3,350	3,725	375

Required Supplemental Information

WHITE PINE LIBRARY COOPERATIVE
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended September 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Intergovernmental - Federal	\$ 74,897	\$ 74,897	\$ 74,897	\$ 0
Intergovernmental - State	226,141	224,903	224,903	0
Charges for services	226,082	201,229	187,995	(13,234)
Interest and other sources	1,950	11,070	10,041	(1,029)
Total revenues	529,070	512,099	497,836	(14,263)
<u>Expenditures:</u>				
Recreation and culture	529,070	512,099	507,694	4,405
Net change in fund balance	0	0	(9,858)	(9,858)
Fund balance - beginning of year	231,987	231,987	231,987	0
Fund balance - end of year	<u>\$ 231,987</u>	<u>\$ 231,987</u>	<u>\$ 222,129</u>	<u>\$ (9,858)</u>

Other Supplemental Information

WHITE PINE LIBRARY COOPERATIVE
Other Supplemental Information
Statement of Revenue, Expenditures and
Changes in Fund Balance - Budget and Actual - General Fund
For the Year Ended September 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Intergovernmental:				
Technology grant	\$ 74,897	\$ 74,897	\$ 74,897	\$ 0
State aid	226,141	224,903	224,903	0
Bib access	1,000	350	344	(6)
Delivery	2,136	2,250	2,250	0
Membership fees	175,683	172,895	172,895	0
Materials	1,200	1,000	1,024	24
Merit connection	28,500	0	0	0
Other services	6,800	10,869	11,482	613
Interest	1,400	5,400	6,295	895
Sale of equipment	0	2,470	2,469	(1)
Miscellaneous	550	3,200	1,277	(1,923)
Reserve fund	10,763	13,865	0	(13,865)
Total revenues	<u>529,070</u>	<u>512,099</u>	<u>497,836</u>	<u>(14,263)</u>
<u>Expenditures</u>				
Recreational and cultural:				
Salaries	166,471	163,400	162,774	626
Benefits	64,424	64,700	64,501	199
Supplies	2,000	5,600	5,456	144
Postage	2,400	1,450	1,440	10
Videocassettes	5,000	5,444	3,249	2,195
Software	1,000	1,200	1,125	75
Professional development	750	250	109	141
Maintenance supplies	2,000	450	347	103
Professional services	1,000	37,500	37,046	454
OCLC	26,000	23,000	22,108	892
VLC member fees	55,500	56,560	56,560	0
Continuing education	5,000	5,450	7,750	(2,300)
Original catalog	300	150	73	77
Audit	3,800	5,100	5,100	0
Telephone	3,000	2,000	1,803	197

WHITE PINE LIBRARY COOPERATIVE
Other Supplemental Information
Statement of Revenue, Expenditures and
Changes in Fund Balance - Budget and Actual - General Fund
For the Year Ended September 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<u>Expenditures (continued)</u>				
Recreational and cultural (continued):				
Delivery	\$ 56,126	\$ 57,142	\$ 57,141	\$ 1
Merit	28,500	0	0	0
Staff travel	2,000	3,000	2,790	210
Unemployment	1,350	6,910	6,910	0
Insurance	6,700	6,420	6,419	1
Printing	500	100	0	100
Equipment lease	1,000	3,350	3,725	(375)
Rent	17,352	16,356	16,356	0
Miscellaneous	1,000	3,200	1,546	1,654
Equipment	75,897	43,367	43,366	1
Total expenditures	<u>529,070</u>	<u>512,099</u>	<u>507,694</u>	<u>4,405</u>
Net change in fund balance	0	0	(9,858)	(9,858)
Fund balance - beginning of year	<u>231,987</u>	<u>231,987</u>	<u>231,987</u>	<u>0</u>
Fund balance - end of year	<u>\$ 231,987</u>	<u>\$ 231,987</u>	<u>\$ 222,129</u>	<u>\$ (9,858)</u>



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

November 1, 2005

Board of Directors
White Pine Library Cooperative
Saginaw, Michigan

We have audited the basic financial statements of White Pine Library Cooperative as of and for the year ended September 30, 2005, and have issued our report thereon dated November 1, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered White Pine Library Cooperative's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect White Pine Library Cooperative's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as follows: due to the limited staff size, there is a lack of complete separation of duties with respect to the payroll function. Since it is impractical to increase staff, the cost exceeds the benefit of correcting this weakness; thus management has deemed that corrective action is not practicable under the circumstances.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting

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Board of Directors
White Pine Library Cooperative
November 1, 2005

would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether White Pine Library Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Board of Directors, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Weinlander Fitzhugh



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November 1, 2005

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LOCAL AUDIT & FINANCE DIV.

Board of Directors
White Pine Library Cooperative
Saginaw, Michigan

In planning and performing our audit of the financial statements of the White Pine Library Cooperative for the year ended September 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

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Board of Directors
White Pine Library Cooperative
November 1, 2005
Page 2

Due to the limited staff size, there is a lack of separation of duties with respect to the payroll function. Since it may be impractical to increase staff size, we recommend the following compensating controls:

In regards to payroll disbursements:

1. It is recommended that checks written to the director be signed by a board member.
2. It is recommended that the board continue to review monthly expenditure reports.

This report is solely for the information and use of the White Pine Library Cooperative management, and others within the organization.

We would like to extend our appreciation to the White Pine Library Cooperative for allowing us to serve your organization. We hope we can be of further assistance and we are available to discuss these comments, and their possible implementation, with you at any time. Please do not hesitate to contact us.

Very truly yours,

Weinlander Fitzhugh
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